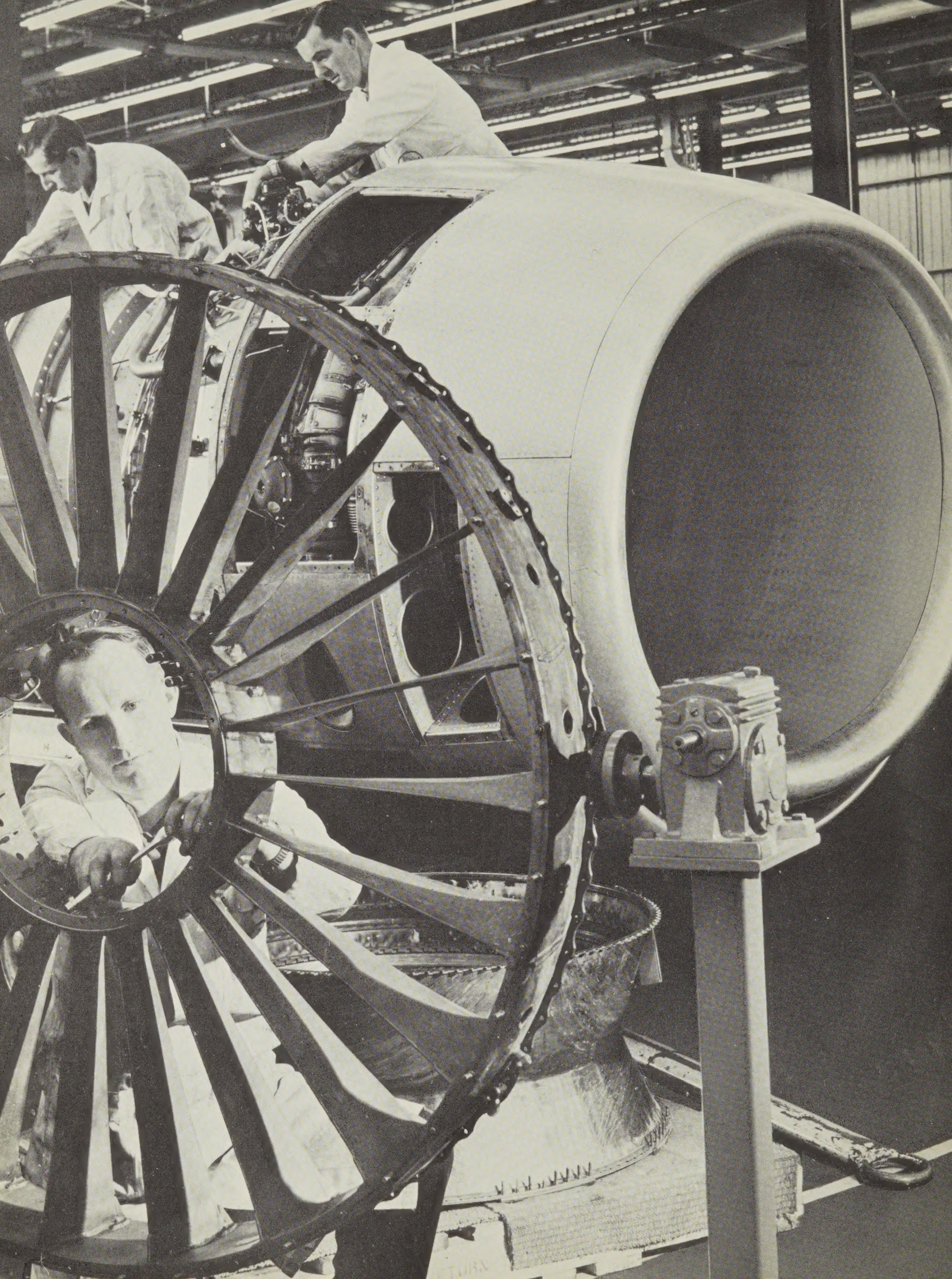


AR03



Trans-Canada Air Lines

Annual Report 1963



ANTIGUA
BARBADOS
BERMUDA
BOSTON
CALGARY
CHICAGO
CLEVELAND
DUSSELDORF
EARLTON
EDMONTON
FORT WILLIAM
FREDERICTON
GANDER
GOOSE BAY
HALIFAX
JAMAICA
KINGSTON
MONTEGO BAY
LETHBRIDGE
LONDON, ENG.
LONDON, ONT.
MONCTON
MONTREAL
NASSAU
NEW YORK
NORTH BAY
OTTAWA
PARIS
PORT ARTHUR
PRESTWICK
QUEBEC CITY
REGINA
ROUYN-NORANDA
SAGUENAY
SAINT JOHN
ST. JOHN'S
SASKATOON
SAULT STE. MARIE
SEATTLE
SEPT-ILES
SHANNON
STEPHENVILLE
SUDBURY
SYDNEY
TAMPA
TIMMINS
TORONTO-HAMILTON
TRINIDAD
TROIS-RIVIERES
VAL D'OR
VANCOUVER
VICTORIA
VIENNA
WINDSOR
WINNIPEG
YARMOUTH
ZURICH

Trans-Canada Air Lines

COVER PHOTOGRAPH: *Passengers board a DC-8 at Barbados, bound for home after vacationing beneath a tropic sun.*

INSIDE COVER: *Mechanic in foreground checks turbine blades as a Pratt and Whitney turbo-fan engine is overhauled at TCA's engineering, maintenance and overhaul base, Montreal.*

*Board of Directors:**

Appointed by Governor-in-Council:

THE HON. LESLIE M. FROST, Q.C., LL.D., *Toronto*

G. R. HACKETT, *Vancouver*

G. R. MCGREGOR, O.B.E., D.F.C., F.R.Ae.S.,
HON. F.C.A.S.I., *Montreal*

R. S. MISENER, *Winnipeg*

Elected by the Shareholders:

R. A. BROWN, Jr., *Calgary*

DONALD GORDON, C.M.G., LL.D., *Montreal*

J. LOUIS LEVESQUE, *Montreal*

H. I. PRICE, *Toronto*

W. G. STEWART, Q.C., *Moncton*

*As at December 31, 1963

Officers:

President: G. R. MCGREGOR

Senior Vice-President, Operations: H. W. SEAGRIM

Senior Vice-President, Sales: W. G. WOOD

Vice-President, Finance and Comptroller: W. S. HARVEY

Vice-President, Purchases and Stores: H. C. COTTERELL

Vice-President, Administrative Services: S. W. SADLER

Secretary: R. T. VAUGHAN

General Counsel: H. C. FRIEL, Q.C.

Executive Offices:

PLACE VILLE MARIE

MONTREAL, QUEBEC



The Year in Brief

	1963	1962	% Change
Revenue Passengers Carried	3,966,547	3,865,408	+ 3%
Revenue Passenger Miles	2,887,239,000	2,659,578,000	+ 9%
Revenue Ton Miles	331,114,000	301,506,000	+10%
Average Return per Passenger Mile*	6.21¢	6.04¢	+ 3%
Average Return per Revenue Ton Mile . . .	59.60¢	60.33¢	- 1%
Passenger Load Factor	59.6%	60.2%	
Weight Load Factor	49.5%	50.8%	
Operating Costs per Available Ton Mile . .	28.15¢	29.67¢	- 5%

*Excludes charter

Financial Review



OPERATING RESULTS FOR 1963 COMPARED WITH THOSE OF 1962 ARE AS FOLLOWS:

	1963	1962	Change
Income from operations	\$37,573,875	\$30,652,489	+\$6,921,386
Depreciation and amortization.	26,305,349	23,257,274	+ 3,048,075
Operating profit	<u>\$11,268,526</u>	<u>\$ 7,395,215</u>	<u>+\$3,873,311</u>
Non-operating income — net	<u>877,862</u>	<u>582,936</u>	<u>+ 294,926</u>
Income before interest expense	\$12,146,388	\$ 7,978,151	+\$4,168,237
Interest on loans & debentures.	<u>11,618,513</u>	<u>11,518,776</u>	<u>+ 99,737</u>
Net income or (deficit)	<u>\$ 527,875</u>	<u>\$(3,540,625)</u>	<u>+\$4,068,500</u>

ANNUAL REPORT

February 7, 1964

TO THE HONOURABLE,
THE MINISTER OF TRANSPORT, OTTAWA
Sir:

The Board of Directors submit the Annual Report of the Trans-Canada Air Lines system for the year 1963.

This was a period of contrasts, marked not only by a strengthened economic position but also, near the close of the year, by major tragedy.

Financial

In 1963 TCA emerged from a three-year period of deficit with a net income of \$527,875. Earnings before interest expense amounted to \$12,146,388 and represented a return on investment of 4¾% compared to 3¼% in the previous year.

Four principal factors contributed to this recovery:

- higher revenue yields per passenger mile resulting mainly from tariff action in the previous year;
- a modest increase in the volume of scheduled passenger traffic;
- a greatly expanded volume of Atlantic charter traffic following increased TCA participation in this market;
- further unit cost reductions derived from the higher proportion of total transportation provided by DC-8 aircraft.

Offsetting these to a small degree was a decline in the system passenger load factor on scheduled services from 60% to 59%.

The system average revenue per passenger mile rose 3% to 6.21¢ as tariff revisions introduced during the previous year were in effect for

all of 1963. In March a revised family plan tariff for First Class travel in North America was introduced. While this tended to lower yields per passenger mile it increased the volume of First Class traffic and improved the First Class passenger load factor. Canada-Caribbean fares were adjusted in April in accordance with International Air Transport Association agreements. This contributed to better yields on Southern services.

Passenger traffic on scheduled services was 3% above the previous year. Total passenger volume on scheduled and charter operations combined grew 9%, the growth being mainly provided by Atlantic charter traffic which increased nearly eightfold and represented almost one-third of total Atlantic passenger travel.

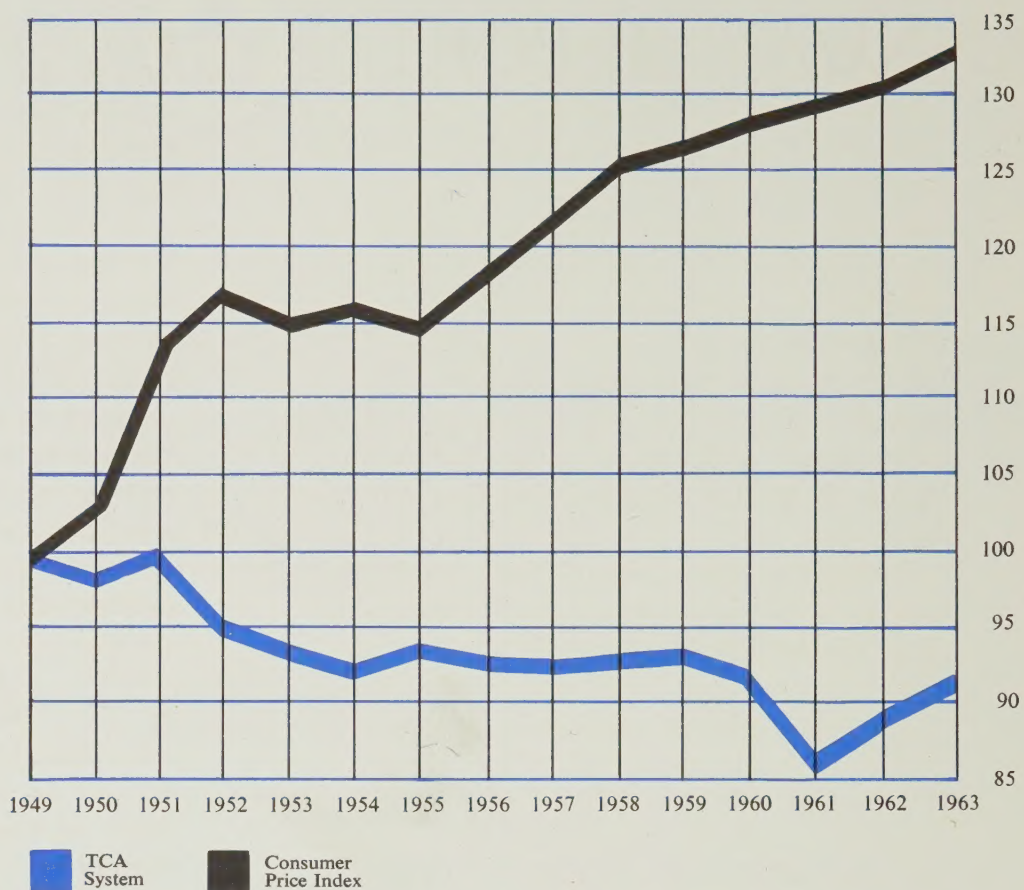
North American passenger growth was less than 2%, with expansion in the latter part of the year overcoming earlier declines. The high-volume transcontinental routes recorded virtually no change from last year. There were declines on some short-haul routes. The only area of dramatic passenger growth on scheduled services was on the Bermuda and Caribbean routes where traffic increased 31%.

System air freight traffic increased 22%. Rapid growth occurred on the Atlantic where DC-8 freighter service was introduced in the early part of the year. Air express volume advanced 7% and air mail 8%.

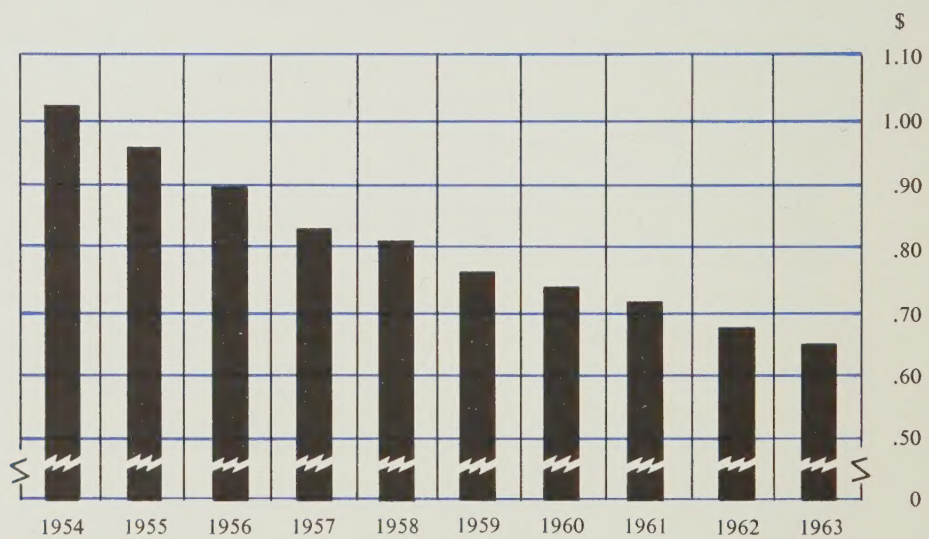
The interaction of these yields and growths resulted in total revenues reaching \$199,390,290, an increase of 9% over the previous year.

Unit costs recorded further significant improvement in 1963. Operating expense per available ton mile dropped from 29.67¢ to 28.15¢, and total expense from 31.52¢ to 29.75¢. The chart on page 14 indicates the substantial reduction achieved in unit costs over the past ten years — over 30% below 1954 levels. This is particularly noteworthy in view of the extensive service provided on short-haul routes of low traffic density where costs are significantly higher.

Index of
T.C.A. Average
Passenger
Revenue
Yield vs.
Consumer
Price Index
1949-1963
(Year 1949=100)



Average Return
Per Mail
Ton Mile —
North American
1954-1963



Expanded DC-8 and Vanguard flying led to an improvement of 18% in fleet productivity to 3,744 available ton miles per aircraft hour. This productivity was subdivided by aircraft types as follows:

	<i>Available Ton Miles Per Aircraft Hour</i>
Viscount	1,200
Vanguard	3,858
DC-8	9,082

This improved fleet productivity was combined with a slight decrease in staff to bring about an increase in employee productivity of 16%.

Capital expenditures in 1963, as in the past, were within the authorized budget and amounted to \$28,800,000. This total consisted mainly of final payments on four DC-8 aircraft, progress payments on another, and initial payments on six DC-9 aircraft. The expenditures were entirely financed from Company resources and required no additional borrowings. As a result, the outstanding debt was unchanged from the 1962 year-end level and interest charges for 1963 increased by a relatively small amount.

Depreciation rose 13%, principally reflecting the additional investment in flight equipment. The Company continued to depreciate its aircraft, ground equipment and buildings in the same manner and at the same rates as in recent years. This procedure provides for the systematic write-off of each asset over its estimated useful service life, down to a residual value. Such practice is common throughout the airline industry.

Insurance Reserve/Fund

A major DC-8 accident in the month of November seriously affected the Company's self-insurance reserve. The write-off of the book value of this aircraft depleted the reserve by \$7,114,000. Accruals to the reserve in 1963 totalled \$3,950,000, being an estimate of the premium expense of outside underwriting. The

year-end balance of \$5,982,000 reflects these transactions.

A second DC-8 was extensively damaged at London, England, and further charges arising from both accidents could conceivably reach \$7,200,000. It is anticipated that the year-end balance, together with accruals made during 1964, will be sufficient to meet these added charges. Therefore it is not expected that the fund will be put into a deficit position as a result of these accidents. However, unless it is possible to increase the annual accrual to an amount greater than the estimated premium cost of outside insurance, the fund will not attain for several years the \$10 million level established by the Board of Directors.

Service and Traffic Growth

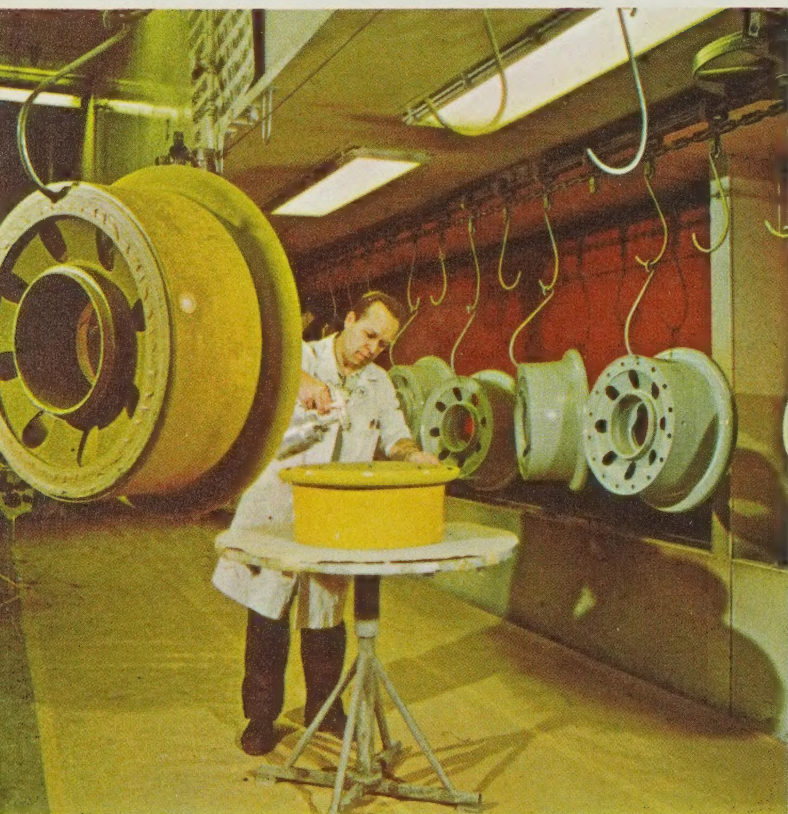
The 3,883,590 passengers carried on scheduled services by TCA in 1963 represented only a slight increase from the previous year's total, but because of a longer average journey, revenue passenger miles rose by 3%. While this could be regarded as a healthy growth, it was, nevertheless, a substantial decline from the 7% increase in passenger traffic recorded in 1962 and lends support to the Company's conviction that dramatic annual increases in domestic air travel can no longer be counted upon and that in future years variations in air transportation volume will be much more directly linked to the general condition of the nation's economy.

To accommodate the additional traffic 5% more seat miles were made available. This too represented a marked contrast with the preceding year when passenger capacity rose by 14%.

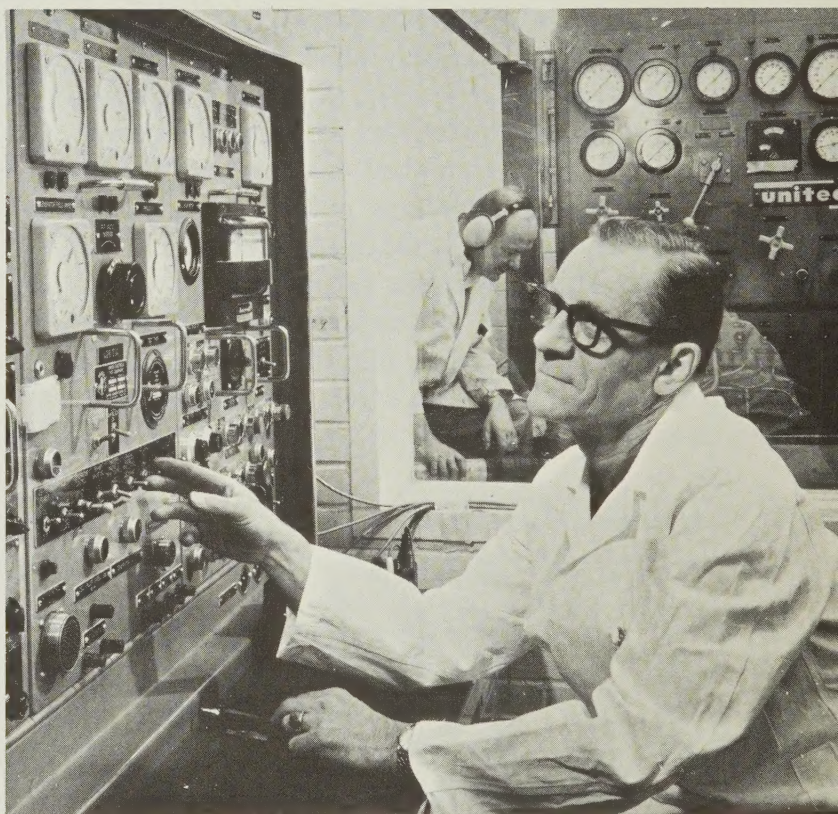
There was a very substantial growth of air freight traffic, 32,000,000 ton miles being flown, an increase of 22%. Air express traffic rose 7% to 3,800,000 ton miles. This gratifying trend was due to a variety of factors, including more cargo capacity on jet aircraft, the efforts by Government and by industry to win new



Aircraft on the ramp at Vancouver's busy International Airport.



Spraying aircraft wheels in the paint shop at TCA's engineering, maintenance and overhaul base, Montreal. A curtain of water running down the red wall rapidly dissipates paint odors.



A technician checks the control panel in the test cell for DC-8 constant speed drives and generators in the accessory shop of TCA's Montreal base.

export markets for Canada, the lifting of Canadian import surcharges and the concentrated air freight sales program conducted by the airline.

DC-8 aircraft in mixed passenger/cargo configuration joined the standard DC-8s on the trans-Atlantic route and in October scheduled jet freight service was inaugurated between Montreal, Toronto, Winnipeg, Edmonton and Vancouver with each flight capable of carrying up to 45,000 pounds of cargo. These developments made possible a through jet freighter service between Vancouver and London three days a week, providing Western Canada with one-day transportation to and from the United Kingdom.

In terms of total traffic, revenue ton miles increased by 10% while available ton miles rose by 13%.

The quality of the transportation service offered by the airline was improved by greater use of jet equipment and by the substitution of the larger and faster propeller turbine Vanguard for Viscounts on some routes. In the summer months five transcontinental jet flights were operated daily while on the Atlantic 26 such flights were scheduled weekly providing more than 3,400 seats in each direction.

TCA recognizes that the ultimate test of the quality of its service is the extent to which it satisfies the public. Because of this fundamental interest the Company continued to devote time and money to a quality measurement program that has been in effect for fifteen years. Involved were periodic passenger opinion surveys and a methodical and objective sampling of service quality in such areas of primary customer concern as reservations, ticket and airport counters, operating regularity, aircraft and cabin servicing, promptness of baggage delivery and air freight service. Very high standards are used in quality evaluation and the findings are employed by management to determine the service areas on which supervisory attention should be concentrated.

In 1963 TCA marked its twentieth year of Trans-Atlantic service and its fifteenth year of operations to the Caribbean, providing record capacity and carrying record traffic totals on both routes.

Because of the inability of the airports at Brandon, Yorkton, Swift Current and Medicine Hat to accommodate Viscount aircraft, the smallest in TCA's turbine fleet, it became necessary for the airline to withdraw its service from those communities. A transfer of the operation to TransAir was, however, negotiated with the approval of the Federal authorities and that Company commenced operations on April 15. At that time TCA disposed of its two remaining DC-3s, bringing to an end its operation of piston engined aircraft.

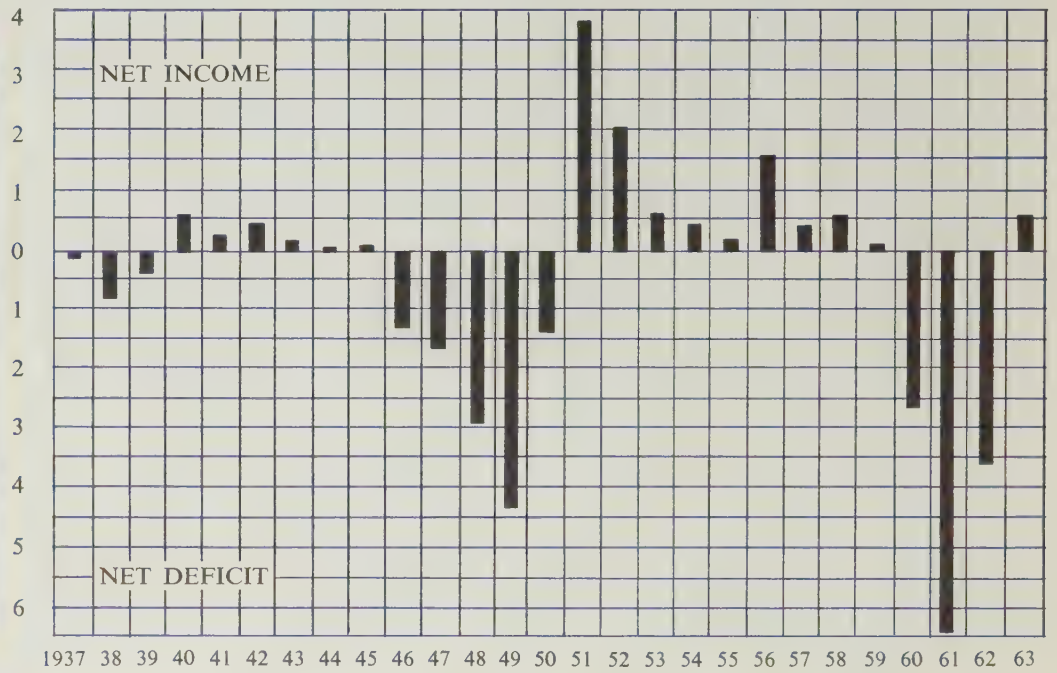
In September, Viscount service was inaugurated at Trois-Rivieres on the Montreal-Quebec City route.

Throughout the year sales efforts were intensive. TCA conducted, for the purpose of increasing air travel from Canada to the United Kingdom and Continental Europe, a major stimulative advertising campaign with satisfactory results. The quality of the promotional effort remained high with TCA being named the top Canadian transportation advertiser for 1963. A Company film was judged to be the best Canadian travel film of the year in the Canadian Tourist Association's film contest.

Continued cooperation with the Canadian postal service produced in 1963 a new record volume of domestic air mail, with further improvement in the high standard of service accorded this priority traffic. The rise in domestic mail to 11,300,000 ton miles during the year had also the planned effect of lowering the unit cost to the Post Office Department from a yearly average of 68¢ per ton mile in 1962 to 65¢ per ton mile in 1963. The agreement which has produced, year after year, this healthy relationship between volume and unit cost, has been in effect now for thirteen years without any change in the basic formula. It is unique and

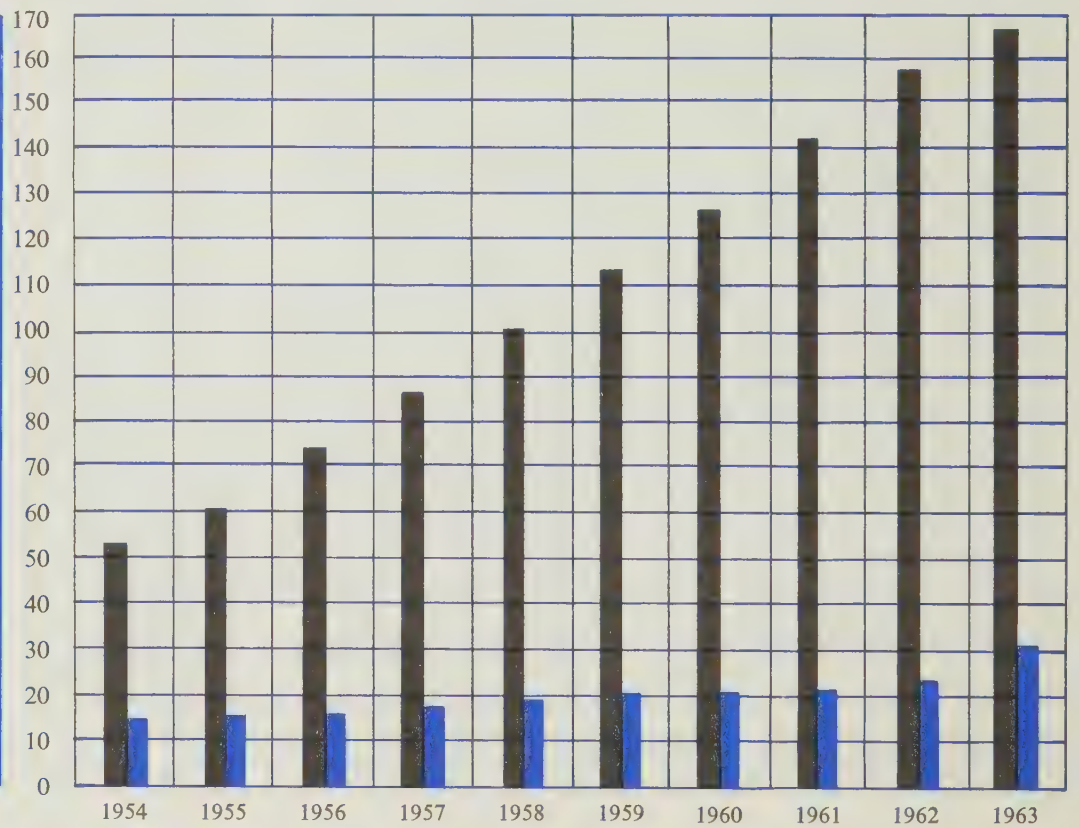
MILLIONS
OF DOLLARS

Net Income or Deficit, 1937-1963

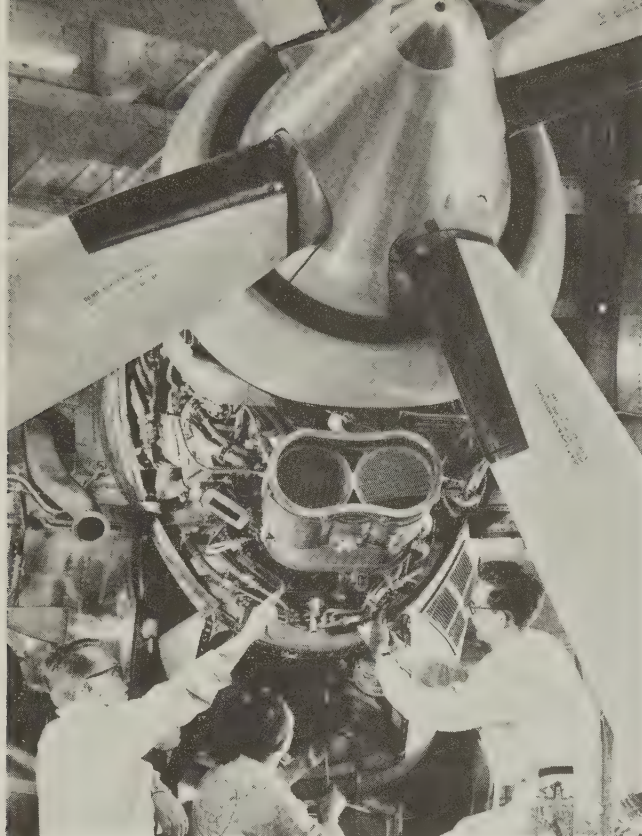


MILLIONS
OF DOLLARS

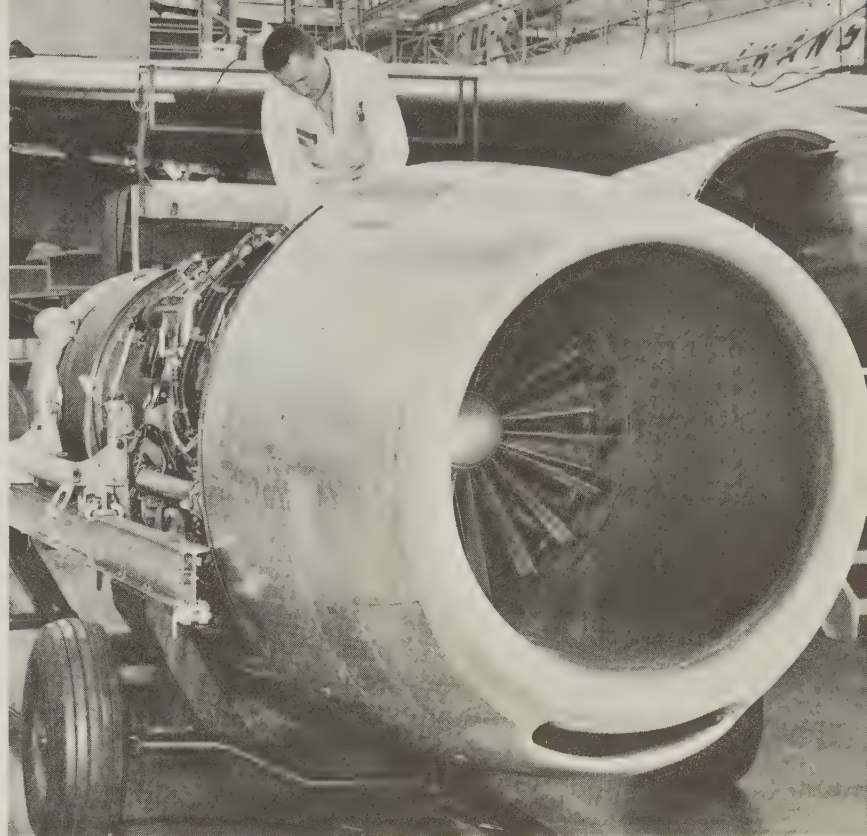
Sources of System Revenues, 1954-1963



Psgr. All Other



Mechanics conduct a final check on a Rolls-Royce Tyne propeller-turbine engine after changing a supercharger.



A Rolls-Royce Conway engine is readied for installation on a DC-8.

responsible in large measure for the fact that Canadians enjoy the highest standard of air mail service in the world at lowest cost.

Record volumes of air mail were also transported on international routes. Agreements were completed with three foreign airlines for reciprocal transportation of national mail on bilateral routes. These foreign airlines have undertaken to carry air mail of Canadian origin to their countries on TCA's behalf while TCA in return carries their national air mail to Canada under the same terms and conditions. Experience in 1963 has shown that these arrangements, the first of their kind in international civil aviation, are not only mutually beneficial to the airlines concerned, but have brought about significant improvement in the quality of international air mail service.

At International Air Transport Association conferences TCA played a leading role in efforts to reduce North Atlantic fares. This endeavour has met with a considerable degree of success and the Company is convinced that if it had not been for the stand it took, sometimes alone among the international carriers, the fares prob-

ably to become effective April 1, 1964 would be at a higher level.

In general, the domestic passenger fare structure was static. Unhappily, the problem of the transcontinental fare differential between TCA and Canadian Pacific Airlines remained unresolved in spite of the best efforts of TCA to arrive at a solution.

Air freight rates between Canada and the Caribbean were lowered three times during the year, providing special impetus to an already expanding market.

The continuation of the established commercial agreement with British Overseas Airways Corporation on the North Atlantic again proved economically sound and contributed to more effective scheduling and high standards of transportation service.

At the close of the year TCA, the ninth largest airline in the free world, was operating over 37,267 route miles linking Canada, the United States, the British Isles, Continental Europe and the Caribbean. This far flung route pattern is illustrated on pages 12 and 13.



ROUTES OF TRANS-CANADA



TCA SERVICES
CONNECTING SERVICES

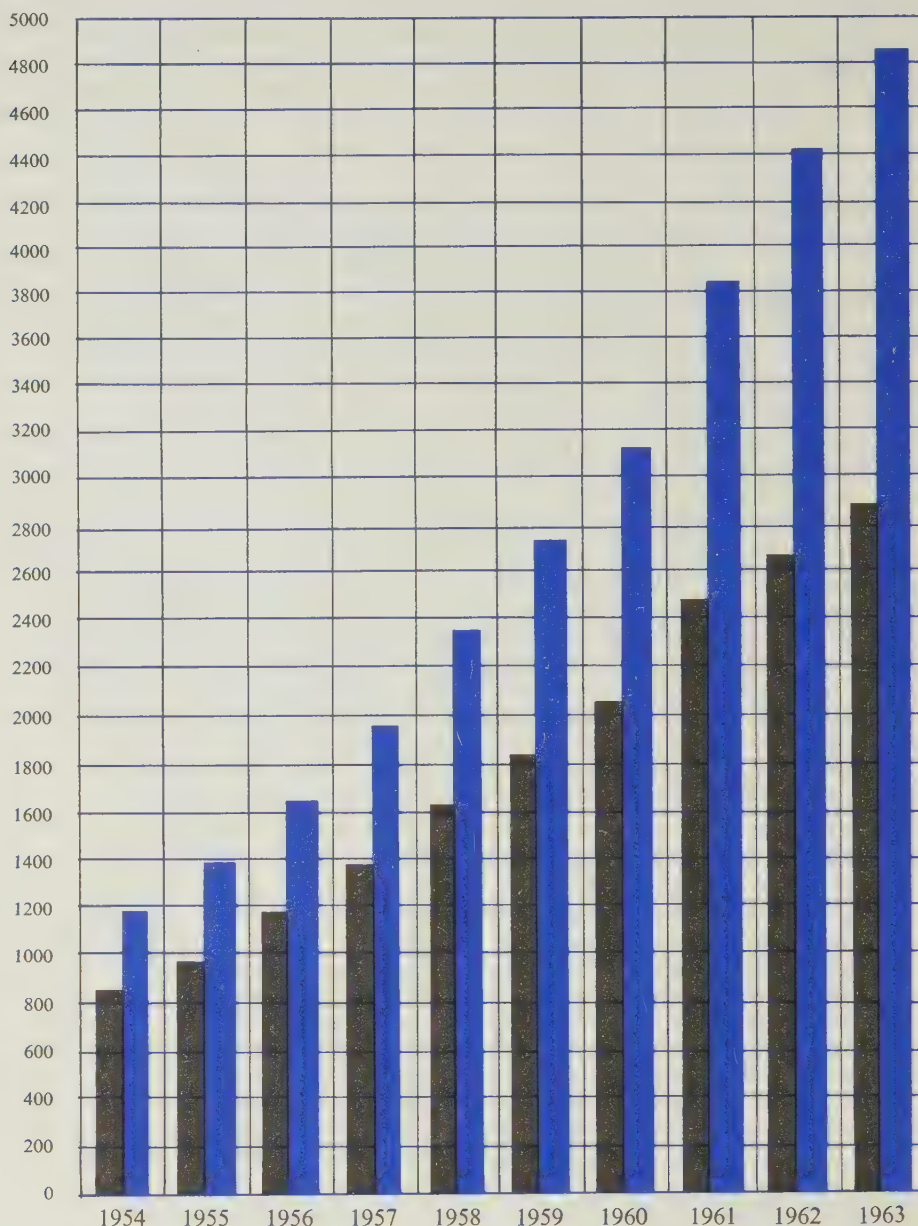


Available Seat Miles and Revenue Passenger Miles (Including Charter) 1954-1963

Revenue
Passenger Miles

Available
Seat Miles

MILLIONS



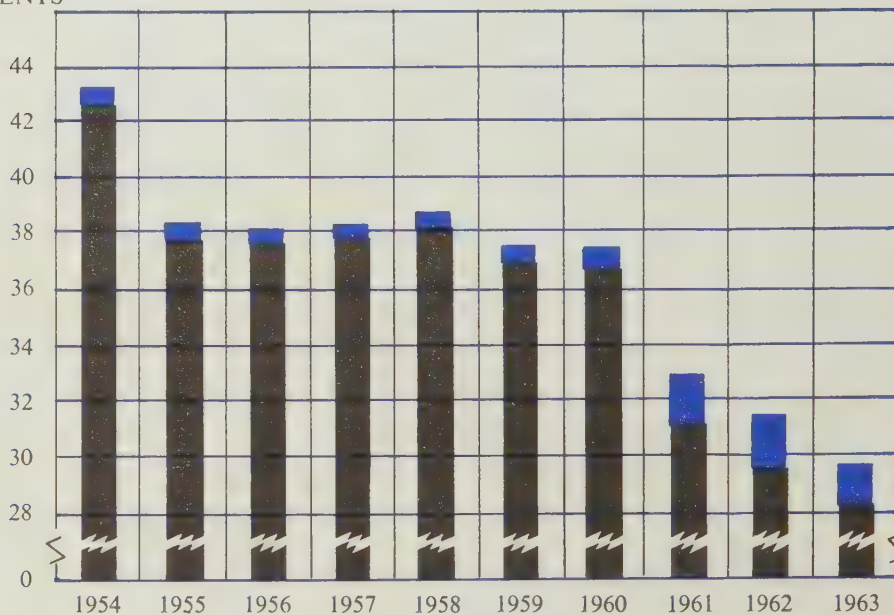
Passenger %
Load Factor

72 70 73 71 69 67 66 64 60 60

Operating and Total Costs per Available Ton Mile 1954-1963

Operating
Cost

CENTS



Equipment and Facilities

The TCA fleet committed to line service at the close of 1963 consisted of 75 aircraft: 13 DC-8s, 22 Vanguards and 40 Viscounts. In addition, one DC-8 was under repair and six Viscounts were surplus. Two other Viscounts were sold during the year. The Company's flight equipment, all-turbine in nature, was well balanced and carefully selected to provide good service on the wide variety of long, medium and short haul operations called for by the route pattern. Delivery was taken of four more DC-8s. These were equipped with Pratt and Whitney fan engines and designed for great load flexibility either as all-cargo or all-passenger transports or in a combination of both.

A catastrophic accident occurred on November 29 when a DC-8 crashed at Ste. Therese, Quebec, shortly after take-off from Dorval with the complete loss of life of the 111 passengers and seven crew members. The aircraft was totally destroyed. This was TCA's first major accident with turbine powered aircraft in the eight years that it has operated such equipment.

Earlier in November another DC-8 was seriously damaged on take-off at London Airport when it ran beyond the end of the runway and came to rest in a field. In this case there were no casualties and the aircraft was not damaged beyond economical repair.

There is no apparent relationship between the two accidents. The London occurrence was due to an aborted take-off, the reason for which has not yet been reported by the Government investigators involved. The Ste. Therese tragedy, on the other hand, apparently resulted from some catastrophic occurrence in flight. At London the aircraft involved was of the mixed passenger/cargo type, while at Ste. Therese the DC-8 was of an all-passenger configuration.

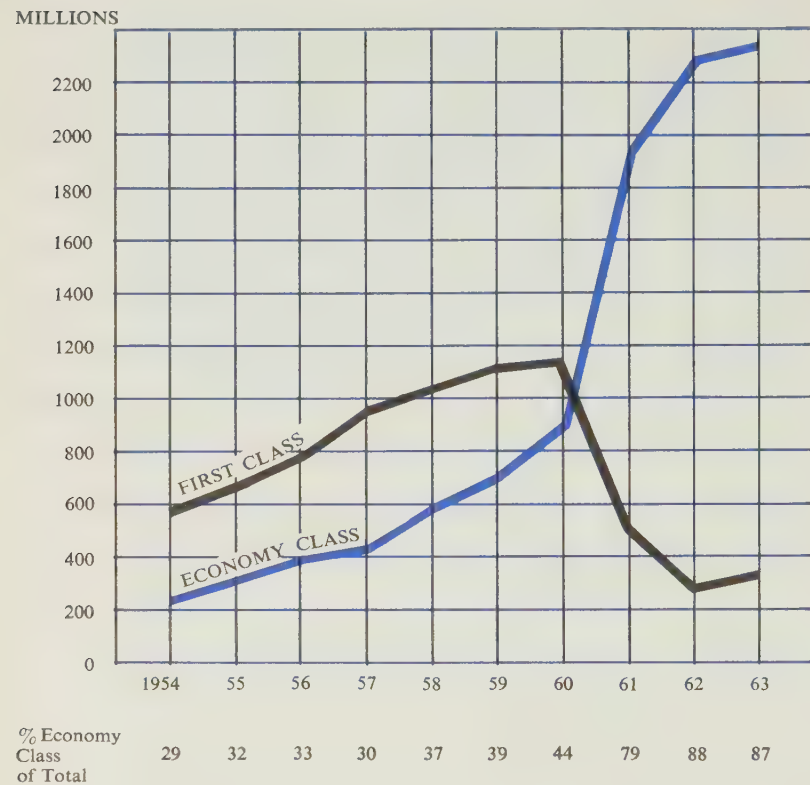
TCA ended, late in 1963, an intensive two-year evaluation of all jet aircraft that could be considered as candidates to replace and to complement the propeller-turbine aircraft now in service on the short to medium range routes. This thorough technical study was given to five aircraft types which would be available for delivery in 1966, when required by the Company. All called for the engines to be mounted at the rear of the aircraft. Three types were twin-engined, while the others had three engines. On the completion of this analysis it was apparent that for TCA's specific requirements, the Douglas DC-9 twin jet aircraft enjoyed a substantial superiority. An initial order was placed for six of them, having a total value of not more than \$24,000,000.

The airline achieved the highest level of operating regularity in its history, its performance comparing very favourably with

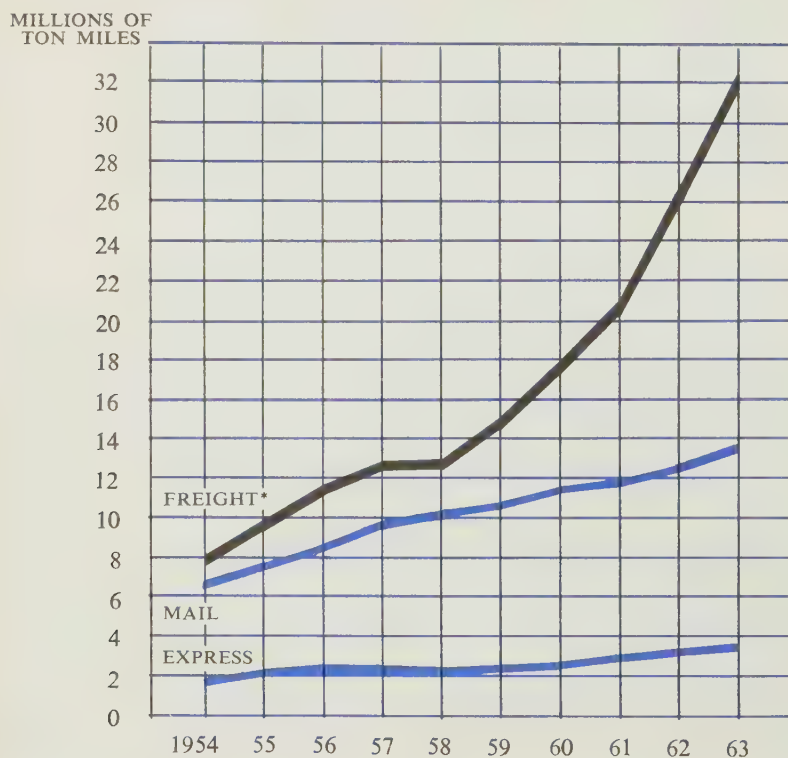
A double-deck pallet transporter, designed by TCA, is used to facilitate cargo loading of a DC-8 at Vancouver International Airport.



Revenue Passenger Miles by Class, 1954-1963



Growth of Mail, Freight and Express Traffic, 1954-1963



*Including Charter

general industry standards. "On time" performance set new records of excellence. 99% of all scheduled mileage was completed.

All three types of turbine powered aircraft in the Company's fleet performed well and too much credit cannot be given to the airline's technical staff. The careful selection and care of its aircraft is TCA's primary consideration and responsibility. Indicative of the high calibre of the flight equipment and its maintenance was the further extension of the service life between overhauls of the Rolls Royce Dart engines of Viscount aircraft to 4,900 hours. This was by far the best service life achieved by an engine in the air transportation industry.

A new base was completed at Halifax in May to provide line maintenance for aircraft serving the Atlantic Provinces.

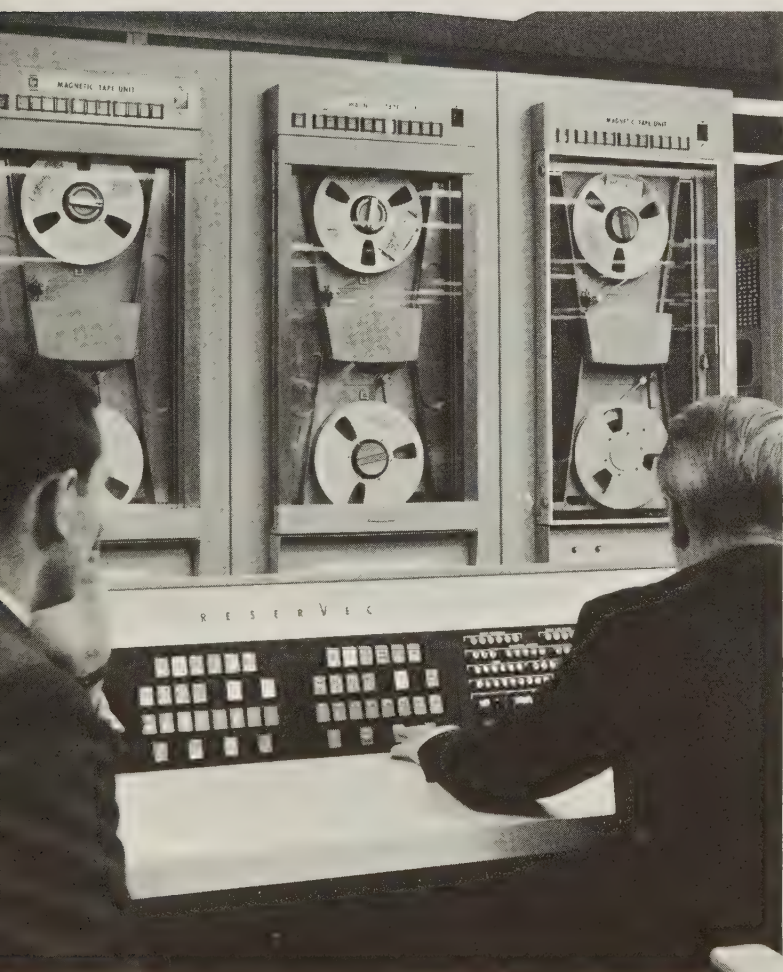
New and superior sales offices were opened in Winnipeg and in Montreal's Place Ville Marie. Other sales quarters were expanded and refurbished in a number of Canadian cities. In the British Isles attractive new offices opened in Glasgow and Dublin. Modest "off-line" quarters were established in Birmingham and Manchester to widen the Company's Overseas sales coverage.

Because of the major program of airport terminal building construction by the Department of Transport, the Company's airport passenger handling facilities benefitted tremendously at many points. Canada's airports are rapidly reaching a very high level of excellence because of the Department's activities and clearly compare well with those of other nations. TCA was again happy to associate itself with this work. Unfortunately, the problem of finding suitable airport accommodation at New York remained unresolved.

The new electronic reservations system, known as ReserVec, went into full operation. Passengers across Canada and in those areas of the United States served by TCA are now able to obtain almost instantaneous confirmation of



Part of the control consol of ReserVec, TCA's modern electronic reservations system.



A portion of the Central Registry, heart of TCA's electronic reservations system, located in Toronto. In the foreground is the control consol, in the background three of the magnetic tape units which store information for the ReserVec system.

reservations requests. The new equipment was introduced with a minimum of complication and has largely eliminated reservations errors. ReserVec, designed and manufactured in Canada, is the most modern system of its kind in the world and a credit to Canadian technology.

Personnel

TCA employees at year-end numbered 11,330. The majority of these are highly qualified specialists in various fields of air transportation and together comprise a closely knit team with an invaluable accumulation of experience.

Negotiations with unions representing various groups of TCA employees, while protracted in some cases, all ended in agreement and the airline added another year to its long history of trouble-free industrial relations.

One feature of the new agreement with the Canadian Air Line Flight Attendants Association was provision for a completely English/French bilingual Montreal base for stewardesses and pursers. This policy, to take effect early in 1965, will ensure that almost all domestic flights east of Toronto and flights to Continental Europe will be completely staffed by bilingual flight attendants. Other steps were taken to encourage an increase of bilingualism throughout the airline, bearing in mind the Company's responsibility to provide a truly national service and to meet the requirements of international markets.

Mr. F. T. Wood, Vice-President of Corporate Services, and one of the airline's first employees, resigned to assume the chairmanship of the Canadian Air Transport Board. His counsel will be missed, but the Company is pleased that his wide experience is now available to the broad administration of Canadian aviation policy.

The performance of personnel was again characterized by hard work and efficiency and the airline's men and women remained its greatest asset.

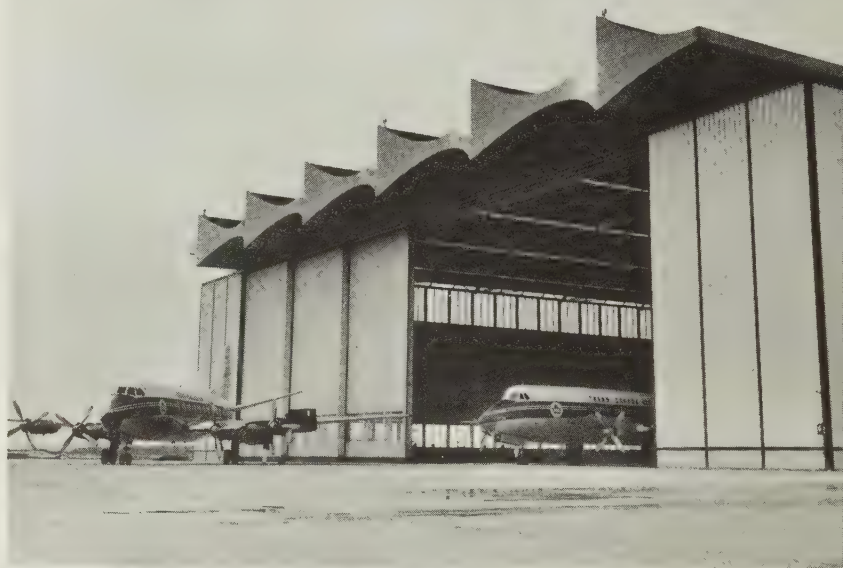


Top: Artist's concept of the Douglas DC-9 twin jet, six of which have been ordered by TCA with first deliveries scheduled for 1966.

Right: This unique scalloped roof readily identifies TCA's new maintenance hangar at Halifax International Airport.

Bottom right: The cabin of a DC-8 is stripped bare for reconditioning during an overhaul check.

Bottom left: Three-second seat confirmation — and a smile — with TCA's electronic ReserVec system, most modern of its kind in the world.



Outlook

Although replenishment of the insurance reserve will severely curtail net earnings for the next three years, in 1964 the Company looks forward with confidence to another year of expanding service and growing economic strength. Domestic passenger traffic should increase at about the rate of growth of the gross national product, or between three and five percent. It is hoped that there will be a marked growth of trans-Atlantic travel as a result of lower fares, even though these will reduce unit yields. The Company, through its IATA membership, will continue to press in the future for inexpensive international air travel. The rapid increase in traffic to Southern destinations gives promise of further major improvement.

The potential for air cargo is very great and every effort will be made to develop this business both at home and abroad.

Given the currently forecast increase in traffic and the reduction of unit operating costs for which the airline will strive, a profit can be anticipated again in 1964.

Flight frequencies and schedules will be tailored to the increasing demand for air transportation. The Company is well equipped with aircraft for this purpose and will, in 1964, take delivery of two additional DC-8s. Another Vanguard will also enter service.

No major route extensions are at present contemplated, although the Company remains constantly alert to interesting possibilities and it is conceivable that this forecast could change, particularly if present hopes for a better bilateral air agreement between Canada and the United States are realized.

All necessary advance planning and preparation will be made for the introduction of the short to medium range twin jet DC-9 aircraft into service in approximately two years time. The technical staff will continue to evaluate new aircraft types, with special emphasis upon the supersonic equipment that will be available in about seven years. While this major techno-

logical development is being viewed by the industry with mixed feelings, it is however a fact with which the airlines must contend. TCA proposes to be very sure of its own position before any firm decisions are taken.

In a highly competitive international industry TCA will endeavour to maintain the highest service standards, both at home and overseas. The Company, now in its second quarter century, has grown far beyond the stature of a domestic carrier and is recognized as one of the world's major transportation organizations. As such it has an obligation to represent Canada well and this will be a common objective of management and personnel. As a major public utility the Company is, above all, keenly aware of its duty to provide good service on as wide a scale as is economically practical and at the lowest possible price to its customers.

For the Directors,



President.

Trans-Canada Air Lines

BALANCE

Assets

CURRENT ASSETS

Cash		\$ 5,231,744
Accounts receivable		
Government of Canada	\$ 2,277,684	
General traffic	10,981,380	
Other	7,799,793	21,058,857
		<hr/>
Materials and supplies — at cost less obsolescence		20,583,133
Other current assets.		566,656
		<hr/>
		\$ 47,440,390

INSURANCE FUND.	5,981,829
-------------------------	-----------

CAPITAL ASSETS

Property and equipment — at cost	\$295,945,828	
Less: Accumulated depreciation	88,629,005	
	<hr/>	
	\$207,316,823	
Progress payments	7,251,511	214,568,334
	<hr/>	

UNAMORTIZED AIRCRAFT INTRODUCTORY COSTS	1,351,622
	<hr/>
	\$269,342,175
	<hr/> <hr/>

This is the balance sheet referred to in our report to the Minister of Transport dated February 7, 1964.

McDONALD, CURRIE & CO.,
CHARTERED ACCOUNTANTS,
Auditors.



as at December 31, 1963

Liabilities

CURRENT LIABILITIES

Accounts payable	\$ 3,059,248
Traffic balances payable to other air lines	6,851,810
Air travel plan deposits	1,782,875
Salaries and wages	1,205,572
Unearned transportation revenue	5,031,392
Interest payable	2,430,574
	<hr/>
	\$ 20,361,471

LOANS AND DEBENTURES — Canadian National Railways

Notes payable	\$ 55,371,000	
Debentures	182,100,000	237,471,000
	<hr/>	

INSURANCE RESERVE	5,981,829
-----------------------------	-----------

CAPITAL STOCK

Common stock — authorized 250,000 shares par value \$100 per share	
— issued and fully paid, 50,000 shares	5,000,000

SURPLUS

Net income, year 1963	527,875
	<hr/>
	<u>\$269,342,175</u>

NOTES:

1. Estimated maximum amount of future charges against Insurance Reserve arising from major accidents in 1963	\$ 7,200,000
2. Balance of payments for equipment on order	36,000,000
3. Contingent liability for notes under discount with banks in connection with the Pay Later Plan	1,939,000

W. S. HARVEY,

*Vice-President — Finance,
and Comptroller.*



Statement of Income

	1963	1962
OPERATING REVENUES		
Passenger	\$167,653,374	\$158,791,609
Express and freight.	12,247,478	10,463,264
Mail	10,942,602	10,561,669
Excess baggage	897,568	888,825
Charter.	5,590,675	1,188,101
Incidental services — net	2,058,593	1,579,999
	<u>\$199,390,290</u>	<u>\$183,473,467</u>
OPERATING EXPENSES		
Flying operations	\$ 42,773,963	\$ 37,796,217
Maintenance	39,242,218	38,826,563
Passenger service.	13,339,644	13,356,686
Aircraft and traffic servicing. . .	28,948,231	27,338,845
Sales and promotion	29,289,632	27,879,968
General and administrative . . .	8,222,727	7,622,699
	<u>\$161,816,415</u>	<u>\$152,820,978</u>
INCOME FROM OPERATIONS . .	\$ 37,573,875	\$ 30,652,489
Depreciation and amortization. .	26,305,349	23,257,274
OPERATING PROFIT.	\$ 11,268,526	\$ 7,395,215
Non-operating income — net . .	877,862	582,936
INCOME BEFORE		
INTEREST EXPENSE	\$ 12,146,388	\$ 7,978,151
Interest on loans and debentures .	11,618,513	11,518,776
NET INCOME OR (DEFICIT) . .	<u>\$ 527,875</u>	<u>\$ (3,540,625)</u>

Auditors' Report

TO THE HONOURABLE, THE MINISTER OF TRANSPORT,
OTTAWA, CANADA.

We have examined the balance sheet of Trans-Canada Air Lines as at December 31, 1963 and the statement of income for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and the related statement of income, when read in conjunction with the notes thereto, are properly drawn up, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, so as to give a true and fair view of the state of affairs of the Corporation at December 31, 1963 and of the results of its operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the Corporation.

We further report that, in our opinion, proper books of account have been kept by the Corporation and the transactions that have come under our notice have been within the powers of the Corporation.

McDonald, Gussie & Co.

FEBRUARY 7, 1964.

Chartered Accountants.



SIGNIFICANT STATISTICS

	1963	1962	% Change
Revenue Passengers Carried —Scheduled .	3,883,590	3,837,491	+ 1%
—Charter . . .	82,957	27,917	+197%
—Total . . .	3,966,547	3,865,408	+ 3%
Revenue Passenger Miles (000's)—Scheduled .	2,701,899	2,629,285	+ 3%
—Charter . . .	185,340	30,293	+512%
—Total . . .	2,887,239	2,659,578	+ 9%
Mail Ton Miles (000's)	13,859	12,862	+ 8%
Express Ton Miles (000's)	3,758	3,516	+ 7%
Freight Ton Miles (000's)	32,023	26,311	+ 22%
Revenue Ton Miles (000's)	331,114	301,506	+ 10%
Available Seat Miles (000's)	4,843,790	4,414,895	+ 10%
Available Ton Miles (000's)	668,394	593,411	+ 13%
Revenue Passenger Load Factor	59.6%	60.2%	
Weight Load Factor	49.5%	50.8%	
Average Flight Stage Length — Miles* . . .	363	356	+ 2%
Average Passenger Journey — Miles* . . .	696	685	+ 2%
Available Ton Miles per Aircraft Hour . . .	3,744	3,178	+ 18%
Average Number of Employees	11,587	11,907	— 3%
Available Ton Miles per Employee	57,685	49,837	+ 16%

*Excludes charter



Passengers board a DC-8 jet.

